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CUTTER FINANCIAL GROUP, LLC

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Fixing a Missed RMD in 5 Easy Steps

What is a missed Required Minimum Distribution?

RMDs must be taken by IRA owners beginning in the year they turn 70 ½ and by IRA and Roth beneficiaries beginning in the year after the death of the account owner. RMDs not taken are subject to a penalty of 50% of the amount not taken each year.

When should you look for a missed RMD?

You should look for a missed RMD every year after an account owner turns age 70 ½ and when an IRA or Roth beneficiary inherits an IRA. Ask your advisor to double check any calculations to be sure they are correct.

1. Look at the balance sheet. Determine the prior year-end IRA balance for the year that an RMD was not fully satisfied. (Note: There were no IRA RMDs for 2009.)
2. Determine the life expectancy factor for all missed years. IRA owners use their age each year and look up the corresponding factor on the Uniform Lifetime Table. IRA beneficiaries use their age only in the year after the account owner's death and look up the corresponding factor on the Single Life Expectancy Table. In each subsequent year, a beneficiary will subtract one from the previous year's factor. (Remember: These are the general rules for determining life expectancy factors. There are many exceptions to these rules.)
3. Do some simple math. Divide the account balance by the life expectancy factor for each missed year's RMD and withdraw that amount from the IRA.
4. Important forms to file. File IRS Form 5329 for each missed RMD to report the missed distribution and penalty. The penalty can be waived for good cause. Attach a letter to the form requesting a waiver. It is helpful to include language in your letter explaining to the IRS why the distributions were missed, that the problem has been corrected and that procedures are in place to avoid future problems.
5. It will never happen again. Set up procedures to ensure you take future RMDs. Many custodians offer an option to distribute RMDs automatically each year. If you struggle to remember to take your RMD, setting up an automatic distribution may be beneficial.

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